MISSISSIPPI STATE PORT AUTHORITY
AT GULFPORT
(A COMPONENT UNIT OF THE STATE OF MISSISSIPPI)

FINANCIAL STATEMENTS

JUNE 30, 2006, 2005, AND 2004

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MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
LIST OF OFFICIALS
JUNE 30, 2006

Board of Commissioners		Term
Dalton D. McGuire	President	12/07/06
Lenwood S. Sawyer, Jr.	Vice President	12/07/07
A.J.M. "Butch" Oustalet, III	Secretary	12/08/08
John K. Rester	Treasurer	12/09/09
Francis Turnage	Commissioner	12/09/10

Executive Director and Chief Executive Officer

Donald R. Allee

Deputy Director of Finance and Administration

Mary J. Bourdin, CPA

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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JUNE 30, 2006, 2005, AND 2004

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INDEPENDENT AUDITORS' REPORT

Alexander | Van Loon | Sloan | Levens | Favre, PLLC

INDEPENDENT AUDITORS' REPORT

November 29, 2006

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
Gulfport, Mississippi

We have audited the accompanying comparative balance sheets of the Mississippi State Port Authority at Gulfport, a component unit of the State of Mississippi, as of June 30, 2006, 2005, and 2004, and the related comparative statements of revenues, expenses, and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Mississippi State Port Authority at Gulfport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mississippi State Port Authority at Gulfport, as of June 30, 2006, 2005, and 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006, on our consideration of the Mississippi State Port Authority at Gulfport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

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To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
November 29, 2006

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Mississippi State Port Authority at Gulfport taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 9, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Alexander, Van Loon, Sloan, Levens & Favre

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

BOARD OF COMMISSIONERS
DALTON D. MCGUIRE
President
LENWOOD S. SAWYER, JR.
Vice President
A.J.M. "BUTCH" OUSTALET, III
Secretary

JOHN K. RESTER
Treasurer
FRANCES TURNAGE
Commissioner
DONALD R. ALLEE
Executive Director & CEO
dra@shipmspa.com
www.shipmspa.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Mississippi State Port Authority at Gulfport (the Authority), we offer the readers of the financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2006, 2005, and 2004. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Financial Highlights

- The Authority's net assets decreased $1.5 million (or 1.01 percent) as a result of this year's operations.
- As of June 30, 2006, the Authority's operating revenues totaled $8.5 million, and operating expenses totaled $16.3 million, resulting in a net loss of $7.8 million. This compares to Fiscal Years 2005 and 2004 when operating revenues exceeded expenses by $7.4 million and $8.5 million, respectively.
- The Authority's operating revenues decreased significantly due to the massive amount of damage sustained by Hurricane Katrina on August 29, 2005. Hurricane Katrina destroyed over 1 million square feet of transit shed space and 5,300 linear feet of dock space.
- As a tribute to the strength of the organization only 23 days passed after the storm before the Authority was able to accept its first Post-Katrina vessel call.
- Of the $16.3 million of operating expenses, over $8.3 million is directly attributed to Hurricane Katrina clean up and repair.
- Total capital assets decreased $32.4 million (or 25.5 percent) as a result of the storm damage.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The annual report consists solely of the financial statements of the Mississippi State Port Authority at Gulfport. These financial statements include the Comparative Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Current year revenues are recognized when earned and current year expenses are recognized when they are incurred without regard to when the cash is received or disbursed.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Balance Sheet

The Balance Sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating by reflecting the Authority's overall financial health. Restricted Assets include customer deposits and bond funds for capital expansion. The Authority internally restricts additional funds for debt service and/or emergency contingencies.

A summary of the Authority's Balance Sheets as of June 30, 2006 with comparative amounts for June 30, 2005 and June 30, 2004 is as follows:

COMPARATIVE BALANCE SHEETS

ASSETS

	2006	2005	2004
CURRENT ASSETS			
Cash and investments	$ 73,266,622	$ 45,584,195	$ 37,650,537
Accounts receivable	567,994	1,795,694	1,838,750
Other Receivables	3,785,250	309,582	322,867
Prepaid expenses	30,034	128,937	124,814
Restricted assets:			
Cash and investments	1,014,444	1,775,863	1,321,102
Interest receivable	442	691	767
Total current assets	78,664,786	49,594,962	41,258,837
NON-CURRENT ASSETS			
Capital assets	94,601,622	126,974,413	121,599,660
Restricted assets:			
Cash and investments	3,676,027	4,511,038	11,073,307
Interest receivable	-	-	-
Unamortized bond issue costs	20,461	22,143	23,824
Total non-current assets	98,298,110	131,507,594	132,696,791
TOTAL ASSETS	$ 176,962,896	$ 181,102,556	$ 173,955,628

Balance Sheet (Continued)

COMPARATIVE BALANCE SHEETS (Continued)

LIABILITIES AND NET ASSETS

	2006	2005	2004
CURRENT LIABILITIES			
Accounts payable and accruals	$ 1,890,070	$ 2,139,723	$ 1,790,450
Retainages payable	310,047	99,560	91,600
Bonds payable	1,695,000	1,610,000	1,930,000
Payable from restricted assets:			
Accounts payable and accruals	-	1,052,374	928,530
Retainages payable	758,864	723,489	393,339
Total current liabilities	4,653,981	5,625,146	5,133,919
NON-CURRENT LIABILITIES			
Bonds Payable	28,545,000	30,240,000	31,850,000
Payable form restricted assets:			
Customer deposits	130,581	133,581	132,581
Total non-current liabilities	28,675,581	30,373,581	31,982,581
NET ASSETS			
Invested in capital assets, net of related det	64,361,622	95,124,405	91,491,998
Restricted	3,801,468	4,378,148	10,940,726
Unrestricted	75,470,244	45,601,276	34,406,404
Total net assets	143,633,334	145,103,829	136,839,128
TOTAL LIABILITIES AND NET ASSETS	$ 176,962,896	$ 181,102,556	$ 173,955,628

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets have changed in the most recent fiscal year and the years presented for comparison. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement that will only result in cash flows in future fiscal periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Revenues, Expenses, and Changes in Net Assets (Continued)

In the statement of revenues, expenses, and changes in net assets, management divides the Authority's activities into two types as follows:

Charges for services - Most of the Authority's maritime services provided are reported here, including wharfage, dockage, usage, harbor fees, line-handling, and demurrage.

Revenue from leases - All revenue received from maritime and non-maritime lease activities is reported here.

A summary of the Authority's Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2006 with comparative amounts for June 30, 2005 and 2004 is as follows:

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2006	2005	2004
OPERATING REVENUES			
Charges for services	$ 2,917,320	$ 7,678,038	$ 7,690,509
Revenue from leases	4,072,722	13,039,452	12,855,024
Total operating revenues	6,990,042	20,717,490	20,545,533
OPERATING EXPENSES	16,350,709	13,335,110	11,991,332
INCOME FROM OPERATIONS	(9,360,667)	7,382,380	8,554,201
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	893,061	899,949	1,016,830
Investment and other income	5,382,626	1,012,412	406,825
Interest and other expenses	(412,411)	(702,107)	(1,209,892)
Loss on disposal of assets	-	(414,162)	(140,465)
Total non-operating revenue (expenses)	5,863,276	796,092	73,298
NET INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEM-GAIN ON IMPAIRMENT	(3,497,391)	8,178,472	8,627,499
CAPITAL CONTRIBUTIONS	479,818	86,229	121,022
GAIN ON IMPAIRMENT OF CAPITAL ASSETS	1,547,078	-	-
CHANGE IN NET ASSETS	(1,470,495)	8,264,701	8,748,521
TOTAL NET ASSETS - BEGINNING	145,103,829	136,839,128	128,090,607
TOTAL NET ASSETS - ENDING	$ 143,633,334	$ 145,103,829	$ 136,839,128

Statement of Cash Flows

The statement of cash flows details the cash received and expended by the Authority during the fiscal year. The cash flow statement is divided into cash flows from operating activities, non-capital financing activities, capital financing activities, and investing activities.

Overall Analysis of Financial Position

One of the most important questions to be answered about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets are tools that management uses as indicators of the Authority's overall financial health. Over a period of time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. Additionally, Management considers other non-financial indicators such as legislative mandates and the economic market conditions to assess the overall well-being of the port.

During Fiscal Year 2006 the Authority experienced one of the worst natural disasters in history when Hurricane Katrina struck the Gulf Coast on August 29, 2005. All of the Authority's warehouse space, rail lines, water and sewage systems were severely damaged or totally destroyed and over 75% of the dock space was unusable. However, within 23 days of the storm, the Authority was able to reopen and provide service to the three container line customers. For the remainder of Fiscal Year 2006 the Authority's focus was to clear debris and repair infrastructure.

The Authority's liabilities decreased another $2.6 million (or 7.4 percent) during the past fiscal year. Total liabilities have decreased over the previous two fiscal years by $3.8 million (or 10.2 percent) as the Authority continues to extinguish its long-term debt. Total net assets decreased $1.4 million (or 1.01 percent). $38.9 million in capital assets was lost due to Hurricane Katrina. The Authority recovered in excess of $45 million from insurance and FEMA funds to assist in the rebuilding of Authority assets

Analysis of the Authority's cash flows shows that during Fiscal Year 2006 the Authority had a decrease of $2.3 million in cash from the previous year. The current year Operating Activities resulted in a net use of $4.5 million in cash as compared to increases of $11.8 million in the prior year and $13 million in Fiscal Year 2004.

Other Potentially Significant Matters

Capital Asset Administration

CAPITAL ASSETS AS OF JUNE 30 (Net of Depreciation, in Millions)	2006	2005	2004
Land	$ 7.4	$ 7.4	$ 7.4
Buildings	6.9	34.5	35.4
Machinery and equipment	0.5	1.5	1.5
Land improvements	10.2	15.3	15.0
Infrastructure improvements	41.7	43.1	45.7
Contruction in progress	27.9	25.2	16.6
	$ 94.6	$ 127.0	$ 121.6

As discussed in Note 5 of the financial statements, many of the Authority's assets listed above were impaired on August 29, 2005 by Hurricane Katrina. The total replacement cost of the loss incurred is estimated to be in excess of $204,000,000. Financial assistance from a variety of sources (e.g., Federal government, State government, and insurance coverage) is becoming available to assist the Authority in the repair and replacement of impaired assets. To date $41 million has been recovered from insurance policies. Over $35 million has been committed from FEMA for capital improvements.

Note 13 to the Financial Statements provides detail of the Authority's outstanding construction commitments as of June 30, 2006.

Debt Administration

DEBT OUTSTANDING AS OF JUNE 30	2006	2005	2004
General Obligation Bonds: (backed by the State of Mississippi)			
Series 16	$ 30,240,000	$ 31,850,000	$ 33,385,000
Serie 1991-B	-	-	395,000
Total bonds outstanding	$ 30,240,000	$ 31,850,000	$ 33,780,000

The Authority continues to extinguish its debt. As of June 30, 2006, only one bond issue (Series 16 issued in 1998) remained outstanding.

Other Potentially Significant Matters (Continued)

Economic Factors and Fiscal Year Ending June 30, 2007's Budget

The Authority's management considered many factors when setting the Fiscal Year 2007 budget. One of these factors was that the Authority's function is to provide marine terminal services to its customers in order to enhance the economic growth of the State of Mississippi. In reviewing the existing tenant agreements and considering the projected capital improvements, revenue projections for the upcoming year remain flat. With the completion of the updated Strategic Master Plan we anticipate to be on track with an aggressive capital improvement schedule fourth quarter Fiscal Year 2007. As our existing maritime tenants continue to face tough competition and to recover from Hurricane Katrina, we do not expect to see an increase in tonnage or revenues from them.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives. If you have any questions regarding this report or need additional financial information, contact the Authority's Office of Finance & Administration, P. O. Box 40, Gulfport, MS 39502.

FINANCIAL STATEMENTS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE BALANCE SHEETS
JUNE 30, 2006, 2005 AND 2004

ASSETS

	2006	2005	2004
CURRENT ASSETS			
Cash and cash equivalents	$ 4,830,328	$ 6,656,575	$ 3,147,357
Investments	68,436,293	38,927,620	34,503,180
Accrued interest receivable	413,054	254,522	201,845
Accounts receivable, net of allowance for doubtful accounts	567,994	1,795,694	1,838,750
Other receivable, insurance proceeds	2,052,437	-	-
Prepaid expenses	30,034	128,937	124,814
Due from other governments	1,319,759	55,060	121,022
Restricted assets:			
Cash and cash equivalents	255,581	661,569	150,077
Investments in repurchase agreements and certificates of deposit with the State Treasury	758,863	1,114,294	1,171,025
Accrued interest receivable	442	691	767
Total current assets	78,664,785	49,594,962	41,258,837
NON-CURRENT ASSETS			
Capital assets:			
Land	7,361,810	7,361,810	7,361,810
Buildings, net of accumulated depreciation	6,922,312	34,476,067	35,378,683
Machinery and equipment, net of accumulated depreciation	489,195	1,535,031	1,488,114
Land improvements, net of accumulated depreciation	10,203,666	15,289,537	15,068,945
Infrastructure, net of accumulated depreciation	41,745,325	43,101,592	45,692,580
Construction in progress	27,879,314	25,210,376	16,609,528
Total capital assets	94,601,622	126,974,413	121,599,660
Restricted assets:			
Cash and cash equivalents	798,140	838,581	837,581
Investments in repurchase agreements and certificates of deposit with the State Treasury	2,877,888	3,672,457	10,235,726
Unamortized bond issue costs	20,461	22,143	23,824
Total non-current assets	98,298,111	131,507,594	132,696,791
TOTAL ASSETS	$ 176,962,896	$ 181,102,556	$ 173,955,628

LIABILITIES AND NET ASSETS

	2006	2005	2004
CURRENT LIABILITIES			
Accounts payable	$ **1,140,919**	$ 1,389,856	$ 1,028,858
Retainages payable	**310,047**	99,560	91,600
Deferred revenue, FEMA	**49,913**	-	-
Accrued salaries	**48,205**	51,586	48,061
Accrued compensated absences	**159,164**	183,872	176,136
Accrued interest payable	**491,869**	514,409	537,395
Current maturities of bonds payable	**1,695,000**	1,610,000	1,930,000
Payable from restricted assets:			
Accounts payable	**-**	1,052,374	928,530
Retainages payable	**758,864**	723,489	393,339
Total current liabilities	**4,653,981**	5,625,146	5,133,919
NON-CURRENT LIABILITIES			
Bonds payable, net of current portion	**28,545,000**	30,240,000	31,850,000
Payable from restricted assets:			
Customer deposits	**130,581**	133,581	132,581
Total non-current liabilities	**28,675,581**	30,373,581	31,982,581
Total liabilities	**33,329,562**	35,998,727	37,116,500
NET ASSETS			
Invested in capital assets, net of related debt	**64,361,622**	95,124,405	91,491,998
Restricted	**3,801,468**	4,378,148	10,940,726
Unrestricted	**75,470,244**	45,601,276	34,406,404
Total net assets	**143,633,334**	145,103,829	136,839,128
TOTAL LIABILITIES AND NET ASSETS	**$ 176,962,896**	$ 181,102,556	$ 173,955,628

The accompanying notes are an integral part of these financial statements.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	2006	2005	2004
OPERATING REVENUES			
Charges for services	$ **2,917,320**	$ 7,678,038	$ 7,690,509
Revenue from leases	**4,072,722**	13,039,452	12,855,024
Total operating revenues	**6,990,042**	20,717,490	20,545,533
OPERATING EXPENSES			
General and administrative	**2,200,054**	2,481,251	2,458,786
Contractual services	**10,785,663**	6,030,619	4,876,893
Commodities	**505,521**	409,158	399,494
Depreciation	**2,859,471**	4,414,082	4,256,159
Total operating expenses	**16,350,709**	13,335,110	11,991,332
INCOME (LOSS) FROM OPERATIONS	**(9,360,667)**	7,382,380	8,554,201
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	**893,061**	899,949	1,016,830
Interest and other investment income	**2,101,505**	1,012,412	391,625
Grant revenue	**3,281,121**	-	-
Other income	-	-	15,200
Interest and other fiscal charges	**(412,411)**	(702,107)	(1,209,892)
Gain (loss) on disposal of capital assets	-	(414,162)	(140,465)
Total non-operating revenue (expenses)	**5,863,276**	796,092	73,298
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND EXTRAORDINARY ITEM	**(3,497,391)**	8,178,472	8,627,499
Capital contributions	**479,818**	86,229	121,022
Extraordinary item - gain on impairment of capital assets	**1,547,078**	-	-
CHANGE IN NET ASSETS	**(1,470,495)**	8,264,701	8,748,521
TOTAL NET ASSETS - BEGINNING (restated)	**145,103,829**	136,839,128	128,090,607
TOTAL NET ASSETS - ENDING	**$ 143,633,334**	$ 145,103,829	$ 136,839,128

The accompanying notes are an integral part of these financial statements.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 8,173,209	$ 21,035,132	$ 20,594,489
Cash payments for personnel services	(2,228,143)	(2,496,542)	(2,416,075)
Cash payments to suppliers of goods and services	(10,505,584)	(6,758,715)	(5,194,552)
Net cash provided by (used in) operating activities	(4,560,518)	11,779,875	12,983,862
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other governments	3,014,141	900,426	994,151
Net cash provided by noncapital financing activities	3,014,141	900,426	994,151
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash received from capital grants	469,605	152,191	-
Acquisition and construction of capital assets	(11,187,563)	(8,527,003)	(12,565,133)
Proceeds from disposal of capital assets	-	81,917	-
Insurance proceeds	38,450,379	-	15,200
Interest paid	(433,269)	(1,591,067)	(1,714,077)
Principal paid on bonds payable	(1,610,000)	(1,930,000)	(3,665,000)
Net cash provided by (used in) capital and related financing activities	25,689,152	(11,813,962)	(17,929,010)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(54,333,939)	(6,475,037)	(39,862,605)
Interest received	1,518,488	1,010,408	759,117
Proceeds from maturities of investments	26,400,000	8,620,000	27,908,000
Net cash provided by (used in) investing activities	(26,415,451)	3,155,371	(11,195,488)
Net change in cash and cash equivalents	(2,272,676)	4,021,710	(15,146,485)
Cash and cash equivalents at beginning of year	8,156,725	4,135,015	19,281,500
Cash and cash equivalents at end of year	$ 5,884,049	$ 8,156,725	$ 4,135,015
CLASSIFIED ON THE COMPARATIVE BALANCE SHEETS AS FOLLOWS:			
CURRENT ASSETS			
Cash and cash equivalents	$ 4,830,328	$ 6,656,575	$ 3,147,357
Retricted Assets:			
Cash and cash equivalents	255,581	661,569	150,077
NON-CURRENT ASSETS			
Restricted Assets:			
Cash and cash equivalents	798,140	838,581	837,581
Cash and cash equivalents at end of year	$ 5,884,049	$ 8,156,725	$ 4,135,015

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2006, 2005 AND 2004

	2006	2005	2004
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Income (loss) from operations	**$ (9,360,667)**	$ 7,382,380	$ 8,554,201
Adjustments reconciling income (loss) from operations to net cash provided by (used in) operating activities:			
Depreciation	**2,859,471**	4,414,082	4,256,159
Provision for loss (recoveries) on accounts receivable	**-**	2,529	(1,963)
(Increase) decrease in assets:			
Accounts receivable	**1,183,167**	40,050	51,218
Prepaid expenses	**98,903**	(4,123)	17,517
Increase (decrease) in liabilities:			
Accounts payable	**689,697**	(40,752)	90,870
Accrued salaries	**(3,381)**	(23,027)	16,060
Accrued compensated absences	**(24,708)**	7,736	100
Customer deposits	**(3,000)**	1,000	(300)
Total adjustments	**4,800,149**	4,397,495	4,429,661
Net cash provided by (used in) operating activities	**$ (4,560,518)**	$ 11,779,875	$ 12,983,862

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Mississippi State Port Authority at Gulfport (Authority) was purchased from the City of Gulfport by the State of Mississippi on September 26, 1960. The Mississippi Development Authority (MDA) is authorized by state law, Mississippi Code Ann. 1972 Section 59-5-11, to oversee operations of the Authority. Furthermore, Mississippi Code Ann. 1972 Section 59-5-21 provides MDA with the authority to operate a port through a State Port Authority.

The Authority is governed by a board of five commissioners appointed to serve five year staggered terms. Three commissioners are appointed by the governor of Mississippi, one is appointed by the Harrison County Board of Supervisors and one is appointed by the City of Gulfport City Council.

Financial Reporting Entity

For financial reporting purposes, the Authority includes all funds that relate to Authority operations, debt service and construction projects. It is not intended to reflect information pertaining to the MDA or the State of Mississippi. As a component unit of the State of Mississippi, its financial information is included in the State of Mississippi's Comprehensive Annual Financial Report.

Basis of Accounting

These financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) relative to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Authority has been identified as an "enterprise fund" as described by GAAP for governmental entities. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* (GASB 34). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. With this measurement focus, all assets and liabilities associated with the operation of the Authority are included on the balance sheets. The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Authority. For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

Investments

The Authority reports investments at fair value. Unrealized gains and losses are reported in the statement of revenues, expenses, and changes in net assets.

Accounts Receivable

The Authority reports receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance account or against earnings.

Due from Other Governments

Due from other governments represents grant funds and ad valorem taxes earned but not received as of June 30.

Property and Equipment

Property and equipment exceeding the State of Mississippi's mandated capitalization thresholds are stated at historical cost. Maintenance and repairs are expensed as incurred. Replacements that improve or extend the lives of property and exceed the mandated thresholds are capitalized. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives and capitalization thresholds are as follows:

	Useful Life	Capitalization Threshold
Furniture and equipment	3-15 Years	$ 5,000
Land improvements	13-40 Years	25,000
Buildings	40 Years	50,000
Infrastructure improvements	20-50 Years	100,000

Capitalized Interest

Interest costs on outstanding debt are capitalized when incurred during the construction period.

Unamortized Bond Issue Costs

Legal and accounting fees, printing costs and other expenses associated with the issuance of Bond Series 16 are being amortized on the straight-line method over the term of the bond.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue represents grant funds received from the Federal Emergency Management Agency (FEMA) for hazard mitigation measures for which no expenditures have been incurred as of June 30, 2006.

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees earn an amount of vacation pay monthly based on years of service and vacation pay is accrued as earned. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service.

Net Assets

The Authority's net assets are categorized as follows:

Invested in capital assets - represents total capital assets net of related debt.

Restricted - represents cash and investments restricted by bond covenants or other agreements net of related liabilities.

Unrestricted - represents resources not limited or restricted in use.

Revenues

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and leasing facilities in connection with the Authority's ongoing operations.

Reclassifications

Certain reclassifications have been made to the data of fiscal year 2005 and 2004 in order to be consistent with the fiscal year 2006 financial statement presentation.

Concentration of Credit Risk

The Authority provides services on credit to many of its customers in the ordinary course of business. The Authority's customers are in the gaming, shipping and marine terminal businesses. The Authority performs on-going credit evaluations of its customers and, generally, requires no collateral.

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits

The MDA deposits funds, on behalf of the Authority, in financial institutions selected by the MDA or the State of Mississippi Treasury Department in accordance with state statutes.

All deposits, including short-term certificates of deposit, with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) must be collateralized in an amount equal to 105% of the uninsured deposit. The collateral must be held by the State of Mississippi Treasury Department or held in trust by a third-party financial institution in the State's name and evidenced by a safekeeping receipt issued to the State.

Qualifying collateral includes:

a. Obligations of the U.S. Treasury and obligations guaranteed by the U.S. Government.

b. Obligations of the Federal Home Loan Bank, Federal National Mortgage Association (Fannie Mae), Federal Land Banks and similar agencies approved by the State Treasurer.

c. Tennessee Valley Authority obligations.

d. Obligations of the State of Mississippi, its agencies, political subdivisions, and municipalities or any body corporate and politic created by the State of Mississippi.

e. Legal obligations of any state, county, parish or municipality that are rated "A" or better.

f. Surety bonds of any surety company authorized to do business in the State of Mississippi.

g. All bonds authorized as security for state funds under items c, d, and e, inclusive, must be investment quality and any bonds under said items c, d, e and f, inclusive, which are rated substandard by any of the appropriate supervisory authorities having jurisdiction over said depository or by any recognized national rating agency engaged in the business of rating bonds, are not eligible for pledging as security.

The responsibility for ensuring the proper collateralization of deposits rests with the State of Mississippi Treasury Department. At June 30, 2006, the carrying amount of the Authority's deposits (including restricted deposits) was $2,465,928 and the bank balances totaled $2,581,618. The total of the bank balance was covered by federal depository insurance or by collateral held by the State of Mississippi Treasury Department or its agent in the State's name. The money market funds of $3,418,121 held by the trust department at one financial investment institution are not covered by federal depository insurance. Those funds are held in the Authority's name and are controlled solely by the Authority.

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of June 30, the fair value of the Authority's investments by type are as follows:

	2006	2005	2004
U.S. Government securities and agencies	$ 68,436,293	$ 38,927,620	$ 34,503,180
Repurchase agreements	3,636,751	4,786,751	11,406,751
	$ 72,073,044	$ 43,714,371	$ 45,909,931

Investments are reported on the balance sheet as of June 30, as follows:

	2006	2005	2004
Current Assets:			
Investments	$ 68,436,293	$ 38,927,620	$ 34,503,180
Investments in repurchase agreements and certificates of deposit with State Treasury	758,863	1,114,294	1,171,025
Non-Current Assets			
Investments in repurchase agreements and certificates of deposit with State Treasury	2,877,888	3,672,457	10,235,726
Total investments	$ 72,073,044	$ 43,714,371	$ 45,909,931

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the financial institution with which the Authority invests, the Authority will not be able to recover the value of its investments, which are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counter party or the counter party's trust department or agent but not in the Authority's name.

As of June 30, the following investments were held by the counter party, or by its trust department or agent but not in the Authority's name:

	2006	2005	2004
Repurchase agreements	$ 3,636,751	$ 4,786,751	$ 11,406,751

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Custodial Credit Risk (Continued)

All investments made by the Mississippi State Port Authority are authorized by the Executive Director in accordance with all applicable state laws. As outlined by the Mississippi Code Section 27-105-33, the Authority invests in United States Government Instrumentalities. Mississippi Code Section 25-11-121 requires that all investments be clearly marked as to ownership and, to the extent possible, be registered in the name of the Authority. The repurchase agreements noted above are held in the name of the Mississippi State Treasury.

Credit Risk

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation. Mississippi State law requires a minimum quality rating of A-3 by Standard and Poor for corporate short-term obligations. This law also requires corporate and taxable municipal bonds to be of investment grade as rated by Standard and Poor, with bonds rated BAA/BBB not to exceed 5% of total fixed income investments. The highest credit rating that can be obtained from Standard and Poor is AAA.

As of June 30, the Authority's investments had the following credit ratings as published by Standard and Poor:

Investment	Credit Rating	Fair Value		
		2006	2005	2004
U.S. Government securities and agencies	AAA	$ 68,436,293	$ 38,927,620	$ 34,503,180
Repurchase agreements	Unrated	3,636,751	4,786,751	11,406,751
		$ 72,073,044	$ 43,714,371	$ 45,909,931

Interest Rate Risk

Interest rate risk represents the Authority's exposure to fair value changes arising from changing interest rates over the term of the investments. The longer the period for which an interest rate is fixed, the greater the potential for variability in fair value resulting from changes in interest rates.

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk (continued)

The future maturities of the Authority's investments as of June 30, 2006 are as follows:

Investment Type:	Fair Value	Investment Maturities (in years) Less than 1	1-5
U.S. Government securities and agencies	$ 68,436,293	$ 53,931,433	$ 14,504,860
Repurchase agreements	3,636,751	3,636,751	-
	$ 72,073,044	$ 57,568,184	$ 14,504,860

The Authority has developed a formal written investment policy which governs the investment process and establishes parameters to be followed in order to mitigate investment risk to include credit and interest rate risk.

NOTE 3: ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30, 2006, 2005, and 2004.

	2006	2005	2004
Accounts receivable from customers	$ 1,610,663	$ 2,838,363	$ 2,878,890
Less: allowance for doubtful accounts	(1,042,669)	(1,042,669)	(1,040,140)
Accounts receivable, net	$ 567,994	$ 1,795,694	$ 1,838,750

The Authority recorded no bad debt expense (recovery) for the fiscal year ended June 30, 2006. Bad debt expense (recovery) for the fiscal years ended June 30, 2005 and 2004 totaled $2,529, and $(1,962), respectively. Bad debt expense (recovery) has been netted against or included in the revenue to which it relates in the statements of revenues, expenses, and changes in net assets.

NOTE 4: ACCOUNTS RECEIVABLE – INSURANCE PROCEEDS

On August 29, 2005, the Authority's buildings and port operations were severely damaged by Hurricane Katrina. As of June 30, 2006, the Authority has received $38,450,379 in insurance proceeds related to these damages. The Authority received $2,052,437 in additional insurance proceeds in August 2006. As of June 30, 2006, the Authority recognized $38,955,738 in capital impairment losses related to these damages. A net gain on impairment of capital assets of $1,547,078 is recorded in the comparative statements of revenues, expenses, and net assets under the caption "extraordinary item - gain on impairment of capital assets."

NOTE 5: CAPITAL ASSETS

An analysis of the changes in capital assets is as follows:

For the fiscal year ended June 30, 2006

	Balance 7/1/2005	Additions	Disposals	Transfers	Balance 6/30/2006
Land	$ 7,361,810	$ -	$ -	$ -	$ 7,361,810
Buildings	41,361,747	-	(33,647,889)	-	7,713,858
Machinery and equipment	5,716,892	53,617	(3,392,968)	-	2,377,541
Land improvements	25,611,579	-	(7,787,513)	-	17,824,066
Infrastructure	72,105,858	-	(10,960,024)	6,434,253	67,580,087
Construction in progress	25,210,376	9,388,801	(285,610)	(6,434,253)	27,879,314
Total capital assets	177,368,262	9,442,418	(56,074,004)	-	130,736,676
Less: accumulated depreciation for:					
Buildings	(6,885,680)	(68,355)	6,162,489	-	(791,546)
Machinery and equipment	(4,181,861)	(54,172)	2,347,687	-	(1,888,346)
Land improvements	(10,322,042)	(259,568)	2,961,210	-	(7,620,400)
Infrastructure	(29,004,266)	(2,477,376)	5,646,880	-	(25,834,762)
Total accumulated depreciation	(50,393,849)	(2,859,471)	17,118,266	-	(36,135,054)
Net capital assets	$ 126,974,413	$ 6,582,947	$ (38,955,738)	$ -	$ 94,601,622

All of the disposals for fiscal year ending June 30, 2006 were the result of devastation cause by the impact of Hurricane Katrina on August 29, 2005. Using the facts and circumstances approach outlined in GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* management determined that the impairment gain should be reported as an extraordinary item as discussed in Note 4 above.

NOTE 5: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2005

	Balance 7/1/2004	Additions	Disposals	Transfers	Balance 6/30/2005
Land	$ 7,361,810	$ -	$ -	$ -	$ 7,361,810
Buildings	41,496,747	-	(135,000)	-	41,361,747
Machinery and equipment	5,606,498	79,689	(129,245)	159,950	5,716,892
Land improvements	24,752,319	-	(532,196)	1,391,456	25,611,579
Infrastructure	72,546,363	-	(440,505)	-	72,105,858
Construction in progress	16,609,528	10,205,235	(52,981)	(1,551,406)	25,210,376
Total capital assets	168,373,265	10,284,924	(1,289,927)	-	177,368,262
Less: accumulated depreciation for:					
Buildings	(6,118,064)	(821,163)	53,547	-	(6,885,680)
Machinery and equipment	(4,118,384)	(154,801)	91,324	-	(4,181,861)
Land improvements	(9,683,374)	(847,132)	208,464	-	(10,322,042)
Infrastructure	(26,853,783)	(2,590,986)	440,503	-	(29,004,266)
Total accumulated depreciation	(46,773,605)	(4,414,082)	793,838	-	(50,393,849)
Net capital assets	$ 121,599,660	$ 5,870,842	$ (496,089)	$ -	$ 126,974,413

For the fiscal year ended June 30, 2004

	Balance 7/1/2003	Additions	Disposals	Transfers	Balance 6/30/2004
Land	$ 7,361,810	$ -	$ -	$ -	$ 7,361,810
Buildings	41,496,747	-	-	-	41,496,747
Machinery and equipment	7,596,848	59,876	(2,050,226)	-	5,606,498
Land improvements	24,630,230	-	-	122,089	24,752,319
Infrastructure	59,743,952	-	-	12,802,411	72,546,363
Construction in progress	16,819,456	12,743,480	(28,908)	(12,924,500)	16,609,528
Total capital assets	157,649,043	12,803,356	(2,079,134)	-	168,373,265

NOTE 5: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2004 (Continued)

	Balance 7/1/2003	Additions	Disposals	Transfers	Balance 6/30/2004
Less: accumulated depreciation for:					
Buildings	(5,295,102)	(822,962)	-	-	(6,118,064)
Machinery and equipment	(5,883,634)	(173,420)	1,938,670	-	(4,118,384)
Land improvements	(8,871,687)	(811,687)	-	-	(9,683,374)
Infrastructure	(24,405,693)	(2,448,090)	-	-	(26,853,783)
Total accumulated depreciation	(44,456,116)	(4,256,159)	1,938,670	-	(46,773,605)
Net capital assets	$ 113,192,922	$ 8,547,197	$ (140,464)	$ -	$ 121,599,660

Construction in progress at June 30, 2006 is primarily composed of construction costs for terminal expansion, capital restoration of hurricane damage, and construction costs for rehabilitating berth facilities. For the years ended June 30, 2006, 2005, and 2004, $1,076,200, $867,655, and $448,085, respectively, of interest incurred on outstanding debt during the construction period was capitalized.

NOTE 6: BOND PAYABLE

The Authority is responsible for the repayment of a specific General Obligation Bond of the State of Mississippi relative to Authority capital projects. The bond is backed by the full faith and credit of the State of Mississippi but is being retired from the resources of the Authority and is presented as debt of the Authority.

An analysis of bond activity is as follows:

For the fiscal year ended June 30, 2006

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at 7/1/2005	Principal Payments	Balance at 6/30/2006
16	$ 40,000,000	9/1/1998	9/1/2018	4.00-5.50%	$ 31,850,000	$ 1,610,000	$ 30,240,000
Less: current maturities included in current liabilities					(1,610,000)		(1,695,000)
Bonds payable, net of current portion					$ 30,240,000		$ 28,545,000

NOTE 6: BOND PAYABLE (Continued)

For the fiscal year ended June 30, 2005

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at 7/1/2004	Principal Payments	Balance at 6/30/2005
16	40,000,000	9/1/1998	9/1/2018	4.00-5.50%	$ 33,385,000	$ 1,535,000	$ 31,850,000
1991B	6,155,000	12/1/1991	12/1/2004	4.00-6.10%	395,000	395,000	-
Total bonds payable					33,780,000	$ 1,930,000	31,850,000
Less: current maturities included in current liabilities					(1,930,000)		(1,610,000)
Bonds payable, net of current portion					$ 31,850,000		$ 30,240,000

For the fiscal year ended June 30, 2004

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at 7/1/2003	Principal Payments	Balance at 6/30/2004
15	$ 15,000,000	8/1/1993	8/1/2003	4.75-5.40%	$ 1,845,000	$ 1,845,000	$ -
16	40,000,000	9/1/1998	9/1/2018	4.00-5.50%	34,845,000	1,460,000	33,385,000
1991B	6,155,000	12/1/1991	12/1/2004	4.00-6.10%	755,000	360,000	395,000
Total bonds payable					37,445,000	$ 3,665,000	33,780,000
Less: current maturities included in current liabilities					(3,665,000)		(1,930,000)
Bonds payable, net of current portion					$ 33,780,000		$ 31,850,000

The Authority's future principal and interest requirements as of June 30, 2006 related to the bond payable are as follows:

Year(s)	Principal	Interest	Total
2007	$ 1,695,000	$ 1,439,589	$ 3,134,589
2008	1,780,000	1,365,300	3,145,300
2009	1,870,000	1,285,890	3,155,890
2010	1,970,000	1,195,500	3,165,500
2011	2,070,000	1,094,500	3,164,500
2012-1016	12,045,000	3,768,125	15,813,125
2017-2021	8,810,000	675,500	9,485,500
	$ 30,240,000	$ 10,824,404	$ 41,064,404

NOTE 6: BOND PAYABLE (Continued)

Total interest incurred on bonds and notes payable together totaled $1,486,877, $1,563,757, and $1,656,294 for fiscal years ended June 30, 2006, 2005, and 2004, respectively.

NOTE 7: COMPLIANCE WITH BOND COVENANTS

The indenture covenants of the State of Mississippi General Obligation Bonds require the establishment of certain funds and periodic transfers of money to them as follows:

A. Bond and Interest Sinking Fund - into which shall be transferred by the tenth day of the month preceding the payment date an amount to cover the principal and/or interest payment due.

B. Operation Reserve Fund - into which shall be transferred monthly payments until such fund shall equal $250,000.

C. Bond Reserve Fund - into which shall be transferred monthly payments until such fund shall equal $455,000.

The balances of the above funds at June 30, 2006, reported as restricted assets on the balance sheet, are as follows:

	Balance June 30, 2006	Bond Requirements	Over (Under) Funded
Operation Reserve Fund	$ 250,531	$ 250,000	$ 531
Bond Reserve Fund	456,882	455,000	1,882
Totals	$ 707,413	$ 705,000	$ 2,413

NOTE 8: CONDUIT (NO COMMITMENT) DEBT OBLIGATION

On May 1, 1991, the Mississippi Business Finance Corporation (Issuer), an agency of the State of Mississippi, under the direction of the MDA, issued 1991 Series B revenue bonds totaling $10,000,000 under the provisions of a trust indenture to fund the costs of constructing, installing and equipping ore storage and handling facilities to be owned by the Authority. The 1991 Series B revenue bonds are payable solely from and secured by a pledge of rental payments to be received under the lease agreement with E. I. du Pont de Nemours and Company (DuPont) and are irrevocably and continually guaranteed by DuPont. These bonds are not a general obligation of the Issuer, MDA or the Authority and are not an indebtedness of the State of Mississippi or any political subdivision thereof. Neither the faith and credit of the Issuer, MDA or the Authority nor the taxing power of the State of Mississippi or any political subdivision thereof is pledged to the payment of the principal or interest of these bonds.

NOTE 8: CONDUIT (NO COMMITMENT) DEBT OBLIGATION (Continued)

DuPont pays rental payments to the trust, which in turn pays debt service requirements. The effect of this transaction is that the Authority has received an asset paid for by DuPont. The facility was completed in 1994, and the total cost of $9,723,685 was included in improvements as of June 30, 1994. The bonds bear interest at a rate of 7.15% per annum. The bonds were paid-in-full by DuPont on December 12, 2005.

NOTE 9: CAPITAL CONTRIBUTIONS

Accounting principles generally accepted in the United States of America for proprietary funds of governmental entities require that resources (i.e., grants, entitlements, or shared revenues) externally restricted for capital acquisition or construction are to be reported as capital contributions in the statement of revenues, expenses, and changes in net assets. Capital acquisitions acquired through such resources totaled $479,817, $86,229, and $121,022 as of June 30, 2006, 2005, and 2004, respectively.

NOTE 10: LEASING ARRANGEMENTS

Substantially all of the Authority's property and equipment are leased to various businesses for periods up to 40 years. All of the leases are accounted for as operating leases. Revenue from leases was $4,072,722, $13,039,452, and $12,855,024 for 2006, 2005, and 2004, respectively. The leases to gaming operations include contingent rentals of $3,548,670, $11,457,154, and $9,010,734 for 2006, 2005, and 2004, respectively. These contingent rentals are based on gross revenues of the gaming and certain non-gaming operations. Many of the leases with other operations include provisions for minimum thruput charges in order to fund debt service requirements relating to the specific facility leased. These thruput charges are included in operating revenues.

The following is a schedule of future minimum rentals for the next five years under lease agreements in effect as of June 30, 2006, not including contingent rentals, consumer price index adjustments, or thruput charges:

Year	Amount
2007	$1,900,321
2008	398,811
2009	199,406
2010	-
2011	-
Total	$2,498,538

NOTE 11: DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS, 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the Authority is required to contribute at an actuarially determined rate. As of June 30, 2006, the Authority's rate was 10.75% of annual covered payroll. Effective July 1, 2006, the Authority's rate increased to 11.30%. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Authority's contributions to PERS for the years ended June 30, 2006, 2005, and 2004 were $182,155, $185,843, and $187,148, respectively, equal to the required contributions for each year.

NOTE 12: LEASES

At the beginning of this fiscal year the Authority submitted a letter of intent to renew, for an additional three-year term, an office space lease, however, the office space was significantly damaged on August 29, 2005 by Hurricane Katrina. The Authority is currently renegotiating the lease terms. This operating lease had an initial period that expired in October 2002 and was renewed, at the Authority's option, for one additional three-year term expiring in October 2005. Rent expense under this lease was $22,842, $139,124, and $135,053 for the years ended June 30, 2006, 2005 and 2004, respectively.

In addition to office space, in December 1999, the Authority began renting modular buildings under an original three-year operating lease expiring December 2002 and subsequent month-to-month operating leases. The Authority provided one of these buildings to a lessee as part of the customer's lease agreement. The building was returned on April 29, 2005. Rent expense under these leases was $7,250 and $8,750 for the years ended June 30, 2005 and 2004, respectively.

Rent expense is included in the statements of revenues, expenses, and changes in net assets as contractual services.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Commitments

Construction in Progress

Construction in progress at June 30, 2006 is primarily composed of construction costs for berth rehabilitation, land expansion, capital restoration of hurricane damages, and bulk handling upgrades. The total amount of the construction contracts in progress as of June 30, 2006 is $37,135,538, of which $27,879,314 in construction costs has been incurred through June 30, 2006. Of the construction costs incurred as of June 30, 2006, the Authority remains obligated to pay $601,741 from unrestricted cash and $758,864 from restricted cash. The Authority is further obligated to pay the remaining amount of $9,256,224 as work progresses on these construction contracts from Authority revenues and bonds.

Other Projects

The Authority is also committed to post-hurricane emergency repairs and services that include wharf and fender repairs, diving inspections, land use concept, and demolition and debris removal, repairs to the roofs of several buildings and the installation of a dust collection system. The total of the contracts is $2,425,542, of which $1,582,745 has been incurred through June 30, 2006. The Authority is further obligated to pay the remaining amount of $842,798 as work progresses.

Army Corps of Engineers

In January 2003, the Authority entered into an agreement with the Army Corps of Engineers to prepare a Gulfport Harbor General Reevaluation Report. The Authority's share of the costs related to the report is $1,058,531. The total costs incurred as of June 30, 2006 is $650,000. Of the total costs incurred, $227,500 and $225,500 of those costs were incurred as of June 30, 2005 and June 30, 2004, respectively, and are recorded on the comparative statements of revenue, expenses, and changes in net assets as contractual services. The remaining costs incurred were incurred prior to June 30, 2003.

Contingencies

Regulatory Environment

The Authority's future expansion plans, accounted for in construction in progress, are subject to various regulatory approvals by federal and state agencies which could affect the scope and timing of project completion.

Legal Matters

The Authority has been named as a defendant in civil lawsuits brought about by multiple plaintiffs asserting various property damage claims related to Hurricane Katrina. Damages alleged by the plaintiffs, to date, are approximately $14,000,000. According to legal counsel for the Authority, these litigations are in their very early stages, with the plaintiffs having yet to identify any substantive information to support their claims, should any information exist. The Authority, through the Mississippi Tort Claims Board (see Note 15), is rigorously defending these cases and allegations made by the plaintiffs. Due to these factors, it is not possible at this time to evaluate the likelihood of an unfavorable outcome or the range of potential loss, if any. Therefore, no loss contingency has been recorded in the financial statements related to this matter.

NOTE 14: MISSISSIPPI COAST FOREIGN TRADE ZONE, INC.

In January 1999, the U. S. Department of Commerce Foreign Trade Zone Board approved the expansion of the Greater Gulfport/Biloxi Foreign Trade Zone, Inc. to include Harrison County. Such designation allows foreign or domestic merchandise coming into the Mississippi State Port Authority to generally be considered as part of international commerce and not officially entered in United States Commerce. Therefore, the usual duties charged on goods may be deferred, reduced, avoided or eliminated.

NOTE 15: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omission; injuries to employees; and natural disasters. Significant losses are generally covered by commercial insurance with the exception of the self-insured risks discussed below. There have been no significant reductions in insurance coverage and claim amounts have not exceeded insurance coverage for the current year or the two prior years.

Self-Insurance

Tort Claims

In July 1993, the Authority became a member and participant in the Mississippi Tort Claims Fund under the administration of the Mississippi Tort Claims Board. This entity is a self-insurance tort (civil suit) claims fund organized under Mississippi Code Ann. 1972 Section 11-46-17. Membership for state agencies is mandatory. The plan provides liability and tort claims insurance for its members according to limits established by the Mississippi Tort Claims Act. The members of the group are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

Unemployment Insurance

In January 1979, the Authority became a member and participant in the Unemployment Insurance Fund under the administration of the Department of Finance and Administration, Office of Insurance. The entity is a self-insurance unemployment insurance fund organized under Mississippi Code Ann. 1972 Section 71-5-355. Membership for state agencies is mandatory. The group is self-insured for all unemployment claims filed with the Mississippi Employment Security Commission by former State employees. The members of the group are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

NOTE 16: SUBSEQUENT EVENT

On September 25, 2006, the Authority was awarded $2.5 million as part of its port security grants program. The grant will be used to defray costs associated with equipment destroyed by Hurricane Katrina that was not covered by insurance and for additional intrusion detectors and alarm systems.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

Certain errors resulting in the overstatement of the revenues associated with the DuPont lease agreement, as reported in the Authority's previously issued financial statements, were corrected as of June 30, 2006. The June 30, 2005, financial statements have been restated to correct these errors.

The restatement of net income for 2005 is as follows:

Change in net assets at June 30, 2005, as originally reported	$	8,538,764
Decrease in revenue from leases		(274,063)
Change in net assets June 30, 2005, as restated	$	8,264,701

The effect of the prior period adjustment on net assets as of June 30, 2005, is as follows:

Net assets, June 30, 2005, as originally reported	$	145,377,892
Decrease in revenue from leases		(274,063)
Net assets, June 30, 2005, as restated	$	145,103,829

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Alexander | Van Loon | Sloan | Levens | Favre, PLLC

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 29, 2006

To the Board of Commissioners
Mississippi State Port Authority at Gulfport
Gulfport, Mississippi

We have audited the financial statements of the Mississippi State Port Authority at Gulfport, as of and for the year ended June 30, 2006, and have issued our report thereon dated November 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mississippi State Port Authority at Gulfport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Mississippi State Port Authority at Gulfport's financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Mississippi State Port Authority at Gulfport's financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mississippi State Port Authority at Gulfport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional internal control and other matters that we have reported to management of the Mississippi State Port Authority at Gulfport in a separate letter dated November 29, 2006.

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To the Board of Commissioners
Mississippi State Port Authority at Gulfport
November 29, 2006

This report is intended solely for the information and use of management, the Board of Commissioners, and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 29, 2006

To the Board of Commissioners
Mississippi State Port Authority at Gulfport
Gulfport, Mississippi

Compliance

We have audited the compliance of the Mississippi State Port Authority at Gulfport, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The Mississippi State Port Authority at Gulfport's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Mississippi State Port Authority at Gulfport's management. Our responsibility is to express an opinion on the Mississippi State Port Authority at Gulfport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi State Port Authority at Gulfport's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Mississippi State Port Authority at Gulfport's compliance with those requirements.

In our opinion, the Mississippi State Port Authority at Gulfport complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Mississippi State Port Authority at Gulfport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

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To the Board of Commissioners
Mississippi State Port Authority at Gulfport
November 29, 2006

In planning and performing our audit, we considered the Mississippi State Port Authority at Gulfport's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Mississippi State Port Authority at Gulfport's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the board of directors, management, others within the Authority and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alexander, Van Loon, Sloan, Levens & Favre

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Identifying Number	Federal Expenditures
U.S. Department of Homeland Security			
Passed through the Mississippi Emergency Management Agency:			
Disaster Public Assistance Grant	97.036	PW2726-0	$ 2,693,625
		PW4672-0	75,488
		PW6558-0	82,522
		PW6583-0	15,973
		PW7489-0	145,511
		PW7520-0	44,177
		PW8418-0	62,133
		PW8627-0	161,692
			3,281,121
U.S. Department of Homeland Security			
Port Security Grant	97.056	HSTS04-04-G-GPS438	10,212
Total U.S. Department of Homeland Security			3,291,333
Total Expenditures of Federal Awards			$ 3,291,333

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is included in the federal grant activity of the Mississippi State Port Authority at Gulfport and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unqualified
Internal Control over financial reporting:	
Material Weaknesses identified?	No
Reportable Conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material Weaknesses identified?	No
Reportable Conditions identified that are not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section_510(a) of Circular A-133?	Yes

Programs tested as major programs:

CFDA Number(s)	Name of Federal Program
97.036	Disaster Public Assistance Grant

Dollar threshold used to distinguish between type A and B Programs	$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

2006-1 Finding

Program: *U. S. Department of Homeland Security*; Disaster Public Assistance Grant; CFDA #97.036
PW 2726-0; PW 7489-0

Criteria or Specific Requirement

Per OMB Circular A-102.1.d and OMB Circular A-110.44(d) non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred.

Condition

The grantee did not obtain certification of suspension or debarment as part of the contract prior to contract award.

Questioned Costs

There are no questioned costs associated with the finding since subsequent verification on the Excluded Parties List System website, revealed that neither contractor was suspended or debarred on the date of the contract award.

Context

During the review of the two contractors receiving more than $100,000 related to federal expenditures it was noted that neither contractor provided certification of suspension or debarment as part of the contract.

Effect

Non-compliance with suspension and debarment requirements could result in future questioned costs and/or loss of funding.

Cause

For the first time in more than ten years, the grantee expended federal awards requiring an audit of major federal programs in accordance with the requirements of OMB Circular A-133. Due to the grantee's unfamiliarity with these requirements, they were unaware of the requirement to obtain certification of suspension or debarment as part of the contract prior to awarding the contract.

Recommendation

We recommend that the grantee develop and institute procedures to ensure that certification of suspension or debarment is obtained before contracts are awarded.

Section III – Federal Award Findings and Questioned Costs (Continued)

2006-1 Finding (Continued)

Views of Responsible Officials and Planned Corrective Actions

Management concurs with the finding. The Authority shall revised the general conditions and information for bidders for all projects that will involve federal funding. The revision will be to require al bidders to provide documentation that they have not been suspended or debarred.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

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Executive Director & CEO
dra@shipmspa.com
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Corrective Action Plan
Single Audit
Fiscal Year Ending June 30, 2006

Finding 2006-1

The Mississippi State Port Authority at Gulfport shall revise the general conditions and information for bidders for all projects that will involve Federal funding. The revision will be to require all bidders to provide documentation that they have not been suspended or barred from bidding on Federal contracts.

In addition, the Authority shall include verification of the information provided by the bidder as the Authority completes it due diligence during the bid evaluation process.

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